

**WAVERLY-SHELL ROCK
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS & QUESTIONED COSTS

JUNE 30, 2004

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WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Dale Emmert	President	2004
Cheryl Elsbury-Reiher	Vice President	2003
Becky Kemming		2003
Dennis Epley		2005
Russell Wood	(Resigned July, 2003)	
Jason Leonard	(Appointed August, 2003)	2003

(After September, 2003 Election)

Dale Emmert	President	2004
Cheryl Elsbury-Reiher	Vice President	2006
Becky Kemming		2006
Jason Leonard		2005
Dennis Epley		2005

SCHOOL OFFICIALS

Stan Slessor	Superintendent
Dennis Stufflebeam	District Secretary
Linda Hildreth	District Treasurer

Independent Auditor's Report

To the Board of Education of the
Waverly-Shell Rock Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Waverly-Shell Rock Community School District, Waverly, Iowa as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Waverly-Shell Rock Community School District as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated October 5, 2004 on our consideration of Waverly-Shell Rock Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waverly-Shell Rock Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce D. Frink
Certified Public Accountant

October 5, 2004

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

This section of the Waverly-Shell Rock Community School District's Comprehensive Annual Financial Report presents its "discussion and analysis" of the District's financial performance during the fiscal year ending June 30, 2004. Please read it in conjunction with the District's financial statements.

2004 FINANCIAL HIGHLIGHTS

- The District was able to spend fewer General Fund dollars that came in during the year. This is a positive change from the past three years. The District had revenues of \$12,808,075 and \$12,505,563 was spent during the year. The District's financial solvency ratio as of June 30, 2004 was 17.4%.
- The District experienced again a declining enrollment. The September 2002 enrollment was 1926.8, while the September 2003 enrollment was 1918.1.
- The number net open-enrolled students continued to increase from 54.9 in FY2003 to 68.0 in FY2004.
- The District's alternative high school is continuing to become a regional alternative high school with a growing number of students from other districts enrolling in the program. This is having a positive financial impact on the District.
- Two TAG teachers, a physical education teacher, the superintendent, and a guidance counselor are being shared with the Janesville Consolidated School District. This has allowed for some cost savings.
- The State of Iowa deducted a total of \$39,330 from the State Foundation Aid payments to help support the state's juvenile homes during FY2004.
- The State of Iowa notified the District in October 2003 that they would be cutting \$155,878 from State Foundation Aid payments to help balance the state budget.
- The voters of the Waverly-Shell Rock Community School District approved an Instructional Support Levy on September 12, 2003 for 10 years. This will bring in over \$1.1 million dollars to the school's general operating fund budget in the 2004-2005 fiscal year.
- The voters of Bremer and Butler Counties approved a School Infrastructure Local Option Sales and Service Tax on February 24, 2004 for ten years to be used to make major improvements to school buildings. This will conservatively bring in at least \$560,000 a year to the district.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements, and required supplemental information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Waverly-Shell Rock Community School District

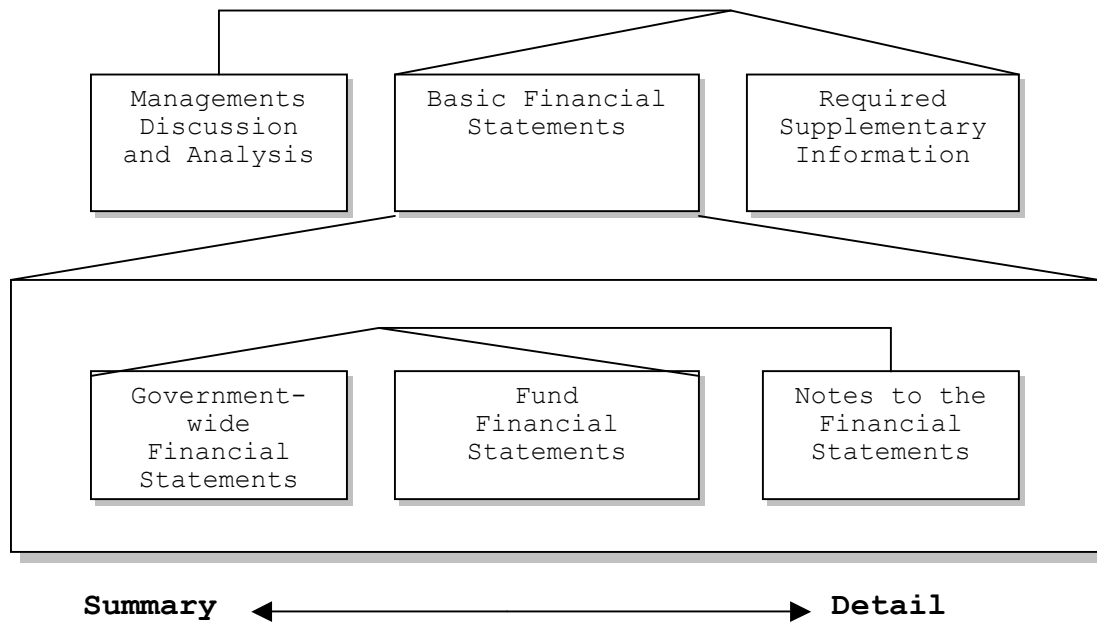


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

COMBINED BALANCE SHEET

The combined balance sheet shows the total assets, liabilities, and fund equity for all of the funds for the entire district for the 2004 fiscal year. The combined balance sheet shows three major fund types as well as the account groups: general fixed assets and the general long-term debt.

The government funds include: the general fund, special revenue, debt service, and capital projects. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, administration, and capital projects. Property taxes and state aid finance most of these activities.

The proprietary funds include: enterprise funds and internal services. Waverly-Shell Rock Community Schools' only enterprise fund is the school nutrition fund. The internal service fund is used to accumulate the funds for health insurance and to pay the health insurance invoices. The money coming into the internal service fund is from the Board's payroll allocation to health insurance, the payroll deductions for health insurance, and money from retirees for their insurance.

The fiduciary funds include: trusts and agencies. The District is the trustee or fiduciary for assets that belong to others, such as some scholarship funds and funds belonging to the W-SR Athletic Boosters. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from other types of funds because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2002.

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-04
	\$	\$	\$	\$	\$	\$	
Current assets	9,694	13,665	111	110	9,805	13,775	-40.49%
Capital assets	4,943	5,223	34	45	4,977	5,268	-5.85%
Total assets	<u>14,637</u>	<u>18,888</u>	<u>145</u>	<u>155</u>	<u>14,782</u>	<u>19,043</u>	<u>-28.83%</u>
Current liabilities	5,997	10,616	27	28	6,024	10,644	-76.69%
Non-current liabilities	2,261	2,000	-	-	2,261	2,000	11.54%
Total liabilities	<u>8,258</u>	<u>12,616</u>	<u>27</u>	<u>28</u>	<u>8,285</u>	<u>12,644</u>	<u>-52.61%</u>
Net Assets							
Invested in capital assets, net of related debt	2,683	2,626	34	45	2,717	2,671	1.69%
Restricted	1,041	933	-	-	1,041	933	10.37%
Unrestricted	2,655	2,713	84	82	2,739	2,795	2.04%
Total net assets	<u>6,379</u>	<u>6,272</u>	<u>118</u>	<u>127</u>	<u>6,497</u>	<u>6,399</u>	<u>1.51%</u>

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards. It is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. These accounts are reflected as restricted assets on the balance sheet, but the reality may be that the District has no actual money borrowed to meet cash flow needs.

The District's combined net assets were \$6,497,084 at June 30, 2004. This represents a 1.5 percent increase over the prior year.

Changes in net assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4 Change in Net Assets (expressed in thousands)			
	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	1,046	526	1,572
Operating grants, contributions and restricted interest	2,336	220	2,556
Capital grants, contributions and restricted interest	75	-	75
General revenues:			
Property tax	5,066	-	5,066
Unrestricted state grants	6,052	-	6,052
Unrestricted investment earnings	102	-	102
Other	20	-	20
Total revenues	<u>14,697</u>	<u>746</u>	<u>15,443</u>
Program expenses:			
Governmental activities:			
Instruction	9,367	-	9,367
Support Services	3,782	-	3,782
Non-instructional programs	-	755	755
Other expenses	<u>1,441</u>	<u>-</u>	<u>1,441</u>
Total expenses	<u>14,590</u>	<u>755</u>	<u>15,345</u>
Change in net assets	<u>107</u>	<u>(9)</u>	<u>98</u>

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$14,679,325 and expenses were \$14,522,292. The District continued to reduce travel and field trips during FY2004, and relied on increased revenues from open enrollment and their regional alternative high school to fund their general fund expenditures. Revenues from governmental activities were \$157,033 larger than the expenditures for governmental activities.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	9,367	6,843
Support Services	3,782	3,467
Other expenses	<u>1,442</u>	<u>823</u>
Totals	<u>14,591</u>	<u>11,133</u>

- The cost financed by users of the District's programs was \$1,045,864.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,586,937.
- The net cost of governmental activities was financed with \$5,064,299 in property tax, \$6,052,167 in state foundation aid, and \$102,209 in interest income.

Proprietary-Type Activities

Revenues for the District's School Nutrition Fund were \$746,658 and expenses were \$755,175. The revenues include: charges for services, contributions, and federal and state reimbursements.

The Internal Service Fund is used only to collect, hold, and pay out money for the District's employee group health insurance plan. Revenues come from the Board of Education's allocation of funds for the health insurance employee benefit, payroll deductions from employee's checks, and checks brought in by retiree's that continue to stay on the plan.

The Trust Funds are funds given and designated by outside groups and people basically to be given as scholarships. These funds are not to be used to support the operations of the District.

The Agency Funds are funds belonging to parent groups, school employee groups, and such groups as Athletic Boosters. The school merely holds these funds in a bank account for these groups and writes checks for these groups when directed by the group. These funds are not to be used to support the regular operations of the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Waverly-Shell Rock Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$6,379,127, which is 2% larger than last year's ending fund balance of \$6,272,247.

- The District has been controlling the decline of its General Fund balance by cutting classroom building budgets, greatly reducing travel and field trips, and reducing staff slightly where possible.
- Increased open enrollments into the District has helped maintain instructional programs with the increased number of students and tuition-in dollars.
- The elimination of Phase III dollars from the state has made it difficult to maintain staff development for teachers.
- The District is hoping to use local option sales tax dollars in the next couple of years to make some additions to classroom buildings.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget after the required public notice and hearing. The budget for the current fiscal year is usually amended each April for revenues and expenditures that could not be anticipated the prior April. The budget amending process follows similar statutory procedures.

It is the District's practice, as is in most Iowa school districts, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2004, the District has invested more than \$4.9 million (net of accumulated depreciation) in a broad range of capital assets including school buildings, athletic facilities, kitchens, computers and audio-visual equipment, administration building, transportation/storage facility, maintenance equipment, school buses, and other vehicles, library holdings and textbooks. Total depreciation for the year exceeded \$500,000.

Long-term Debt

The District continues to pay off general obligation school bonds. The remaining \$1,905,000 worth of bonds carries with them interest costs of \$123,887.50. The principal and interest on the bonds will be paid in full by June 1, 2009. The District makes principal and interest payments yearly on these bonds using property tax dollars obtained through a debt service levy specifically for these bonds.

Capital Loan Notes

The District built the school administration building and an art wing addition to the high school in 1995 using money obtained through capital loan notes. Part of the money generated through the physical plant and equipment levy is used to pay off the principal and interest on the capital loan notes. At the end of fiscal year 2004, the District still owed \$100,415 in principal and interest on the capital loan notes. The last payment will be made by June 1, 2005.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The Instructional Support Levy was passed in September 2003 and money will begin to be received by the District in September 2004.
- Classroom building budgets were cut by 50% for the fiscal year 2004.
- The District levied \$150,000 allowable growth for dropout prevention.
- The District's employee group health insurance moved to higher deductible; maximum out-of-pocket; and co-pays to help keep the monthly premiums at rates more affordable to the District and the employees for fiscal year 2005.
- State Foundation Aid dollars to the district increased by \$252,197 from FY2004 to FY2005. Property tax dollars for the General Fund declined by \$19,142 from FY2004 to FY2005.
- The District began receiving payments in September 2004 from the passage of the Instructional Support Levy in September 2003. The District should receive \$202,136 in Instructional Support property taxes during FY2005, along with \$70,903 in State Aid Instructional Support.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dennis Stufflebeam, School Business Manager, Waverly-Shell Rock Community Schools, 1415 4th Avenue SW, Waverly, Iowa 50677.

Basic Financial Statements

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	4,472,607	95,372	4,567,979
Receivables:			
Property tax:			
Current year	29,055	-	29,055
Succeeding year	4,802,656	-	4,802,656
Accrued interest	651	-	651
Due from other governments	386,687	1,877	388,564
Other receivables	67	-	67
Inventories	-	13,781	13,781
Prepaid expenses	2,545	-	2,545
Capital assets, net of accumulated depreciation (note 3)	4,943,174	34,189	4,977,363
Total assets	14,637,442	145,219	14,782,661
Liabilities			
Accounts payable	100,962	-	100,962
Accrued salary and benefits	1,090,653	27,262	1,117,915
Accrued interest payable	3,537	-	3,537
Deferred revenue:			
Succeeding year property tax	4,802,656	-	4,802,656
Long term liabilities:			
Portion due within one year:			
Bonds payable	365,000	-	365,000
Capital loan notes	95,000	-	95,000
Early retirement	42,629	-	42,629
Portion due after one year:			
Bonds payable	1,540,000	-	1,540,000
Early retirement	217,878	-	217,878
Total liabilities	8,258,315	27,262	8,285,577
Net assets			
Invested in capital assets, net of related debt	2,682,667	34,189	2,716,856
Restricted for:			
Debt service	347,096	-	347,096
Physical plant and equipment levy	359,543	-	359,543
Capital projects	382	-	382
Health insurance	334,609	-	334,609
Unrestricted	2,654,830	83,768	2,738,598
Total net assets	6,379,127	117,957	6,497,084

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues				Governmental Activities	Business-Type Activities	Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest			
	\$	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>							
Governmental activities:							
Instruction:							
Regular instruction	5,884,624	337,438	430,744	-	(5,116,442)	-	(5,116,442)
Special instruction	1,983,310	423,671	489,008	-	(1,070,631)	-	(1,070,631)
Other instruction	1,499,460	-	843,567	-	(655,893)	-	(655,893)
	<u>9,367,394</u>	<u>761,109</u>	<u>1,763,319</u>	<u>-</u>	<u>(6,842,966)</u>	<u>-</u>	<u>(6,842,966)</u>
Support services:							
Student services	323,479	-	7,476	-	(316,003)	-	(316,003)
Instructional staff services	576,416	-	-	-	(576,416)	-	(576,416)
Administration services	1,378,185	199,071	-	-	(1,179,114)	-	(1,179,114)
Operation and maintenance of plant services	1,061,426	-	1,532	-	(1,059,894)	-	(1,059,894)
Transportation services	442,736	85,684	21,640	-	(335,412)	-	(335,412)
	<u>3,782,242</u>	<u>284,755</u>	<u>30,648</u>	<u>-</u>	<u>(3,466,839)</u>	<u>-</u>	<u>(3,466,839)</u>
Other expenditures:							
Facilities acquisition	327,849	-	-	75,902	(251,947)	-	(251,947)
Interest on long term debt	53,834	-	1,063	-	(52,771)	-	(52,771)
Long-term debt service	6,924	-	-	-	(6,924)	-	(6,924)
AEA flowthrough	541,453	-	541,453	-	-	-	-
Depreciation (unallocated)*	511,428	-	-	-	(511,428)	-	(511,428)
	<u>1,441,488</u>	<u>-</u>	<u>542,516</u>	<u>75,902</u>	<u>(823,070)</u>	<u>-</u>	<u>(823,070)</u>
Total governmental activities	14,591,124	1,045,864	2,336,483	75,902	(11,132,875)	-	(11,132,875)

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues						Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$	\$
Business-Type activities:							
Non-instructional programs:							
Nutrition services	755,175	525,829	220,829	-	-	(8,517)	(8,517)
Total	15,346,299	1,571,693	2,557,312	75,902	(11,132,875)	(8,517)	(11,141,392)
General revenues:							
Property tax levied for:							
General purposes					4,084,620	-	4,084,620
Management fund					260,579	-	260,579
Debt service					282,798	-	282,798
Capital outlay					436,302	-	436,302
Local option sales tax					852	-	852
Unrestricted state grants					6,052,167	-	6,052,167
Unrestricted investment earnings					102,209	-	102,209
Other					20,228	-	20,228
Total general revenue					11,239,755	-	11,239,755
Change in net assets					106,880	(8,517)	98,363
Net assets beginning of year					6,272,247	126,474	6,398,721
Net assets end of year					6,379,127	117,957	6,497,084

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$			\$	\$
Assets					
Cash and pooled investments	3,016,363	345,192	318	776,192	4,138,065
Receivables:					
Property tax:					
Current year	23,230	1,904	-	3,921	29,055
Succeeding year	4,077,425	342,328	-	382,903	4,802,656
Accrued interest	651	-	-	-	651
Due from other governments	386,623	-	64	-	386,687
Prepaid expenses	2,545	-	-	-	2,545
Total assets	<u>7,506,837</u>	<u>689,424</u>	<u>382</u>	<u>1,163,016</u>	<u>9,359,659</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	97,297	-	-	3,665	100,962
Accrued salary and benefits	1,090,653	-	-	-	1,090,653
Deferred revenue:					
Succeeding year property tax	4,077,425	342,328	-	382,903	4,802,656
Total liabilities	<u>5,265,375</u>	<u>342,328</u>	<u>-</u>	<u>386,568</u>	<u>5,994,271</u>
Fund balances:					
Reserved for debt service	-	347,096	-	-	347,096
Reserved for capital projects	-	-	382	-	382
Unreserved, designated for cash flow	1,800,000	-	-	-	1,800,000
Unreserved	441,462	-	-	776,448	1,217,910
Total fund balances	<u>2,241,462</u>	<u>347,096</u>	<u>382</u>	<u>776,448</u>	<u>3,365,388</u>
Total liabilities and fund balances	<u>7,506,837</u>	<u>689,424</u>	<u>382</u>	<u>1,163,016</u>	<u>9,359,659</u>

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 3,365,388
Amounts reported for governmental activities in the statement of net assets are different because:	
Internal Service fund assets that are to be included with governmental funds.	334,609
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,943,174
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,537)
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,260,507)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 6,379,127</u></u>

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Capital Projects	Non-major	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	4,084,620	282,798	852	696,881	5,065,151
Tuition	709,076	-	-	-	709,076
Other	452,149	747	-	813,098	1,265,994
State sources	7,173,454	316	-	656	7,174,426
Federal sources	388,776	-	-	75,902	464,678
Total revenues	<u>12,808,075</u>	<u>283,861</u>	<u>852</u>	<u>1,586,537</u>	<u>14,679,325</u>
Expenditures:					
Instruction:					
Regular instruction	5,682,959	-	-	-	5,682,959
Special instruction	1,985,438	-	-	-	1,985,438
Other instruction	737,929	-	-	783,900	1,521,829
	<u>8,406,326</u>	<u>-</u>	<u>-</u>	<u>783,900</u>	<u>9,190,226</u>
Support services					
Student services	323,479	-	-	-	323,479
Instructional staff services	581,294	-	-	-	581,294
Administration services	1,172,858	-	592	218,819	1,392,269
Operation and maintenance of plant services	1,028,720	-	-	48,411	1,077,131
Transportation services	451,433	-	-	96,210	547,643
	<u>3,557,784</u>	<u>-</u>	<u>592</u>	<u>363,440</u>	<u>3,921,816</u>
Other expenditures					
Facilities acquisition	-	-	-	356,576	356,576
Principal on long-term debt	-	455,000	-	-	455,000
Interest on long-term debt	-	50,297	-	-	50,297
Long-term debt services	-	6,924	-	-	6,924
AEA flowthrough	541,453	-	-	-	541,453
	<u>541,453</u>	<u>512,221</u>	<u>-</u>	<u>356,576</u>	<u>1,410,250</u>
Total expenditures	<u>12,505,563</u>	<u>512,221</u>	<u>592</u>	<u>1,503,916</u>	<u>14,522,292</u>

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Capital Projects	Non-major	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	302,512	(228,360)	260	82,621	157,033
Other financing sources (uses):					
Sale of equipment and materials	2,157	-	-	-	2,157
Compensation for loss of capital assets	16,522	-	-	-	16,522
Operating transfers in	-	100,500	-	-	100,500
Operating transfers out	-	-	-	(100,500)	(100,500)
Total other financial sources (uses)	18,679	100,500	-	(100,500)	18,679
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	321,191	(127,860)	260	(17,879)	175,712
Fund balances beginning of year	1,920,271	474,956	122	794,327	3,189,676
Fund balances end of year	2,241,462	347,096	382	776,448	3,365,388

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ 175,712

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 231,985	
Depreciation expense	<u>(511,428)</u>	(279,443)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	455,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental audit

Early retirement	(119,237)
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(3,537)
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Internal Service Fund transactions are not reported in the General Fund as revenues and expenditures, however the General Fund is the source of these revenues and use of the expenditures.	<u>(121,615)</u>
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Change in net assets of governmental activities (Exhibit B) \$ 106,880

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

Year ended June 30, 2004

	Business Type	Governmental Activities
	School Nutrition	Internal Service
	\$	
Assets		
Cash and pooled investments	95,372	334,542
Other receivables	1,877	67
Inventories	13,781	-
Capital assets, net of accumulated depreciation	34,189	-
Total assets	<u>145,219</u>	<u>334,609</u>
Liabilities		
Accrued salary and benefits	27,262	-
Total liabilities	<u>27,262</u>	<u>-</u>
Net Assets		
Invested in capital assets, net of related debt	34,189	-
Restricted for health insurance	-	334,609
Unrestricted	83,768	-
Total liabilities, fund equity and other credits	<u>117,957</u>	<u>334,609</u>

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year ended June 30, 2004

	Business Type	Governmental Activities
	School Nutrition	Internal Service
	\$	\$
Operating revenue:		
Local sources:		
Charges for services	525,829	827,866
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	304,297	-
Benefits	43,747	-
Supplies	382,687	-
Property	4,709	-
Other	9,048	-
Depreciation	10,687	-
	755,175	-
Internal service programs:		
Benefits	-	949,481
Total operating expenses	755,175	949,481
Operating profit (loss)	(229,346)	(121,615)
Non-operating revenues:		
State sources	9,251	-
Federal sources	211,578	-
	220,829	-
Net change in assets	(8,517)	(121,615)
Net assets beginning of year	126,474	456,224
Net assets end of year	117,957	334,609

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2004

	Enterprise School Nutrition \$	Internal Service Health Insurance \$
Cash flows from operating activities:		
Cash received from sale of services	542,057	827,799
Cash payments to employees for services	(349,091)	(949,481)
Cash payments to suppliers for goods or services	(343,757)	-
Net cash provided by (used in) operating activities	(150,791)	(121,682)
Cash flows from non-capital financing activities:		
State grants received	9,251	-
Federal grants received	163,950	-
Net cash provided by non-capital financing activities	173,201	-
Net increase (decrease) in cash and cash equivalents	22,410	(121,682)
Cash and cash equivalents beginning of year	72,962	456,224
Cash and cash equivalents end of year	95,372	334,542
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	(229,346)	(121,615)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:		
Depreciation	10,687	-
Commodities used	47,628	-
Decrease(increase) in other receivables	16,228	(67)
Decrease in inventory	5,615	-
(Decrease) in accounts payable	(556)	-
(Decrease) in accrued payroll and benefits	(1,047)	-
	(150,791)	(121,682)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:		
Current assets:		
Cash	95,372	334,542

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$47,628.

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Private Purpose Trusts	Agency Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments	103,086	54,150	157,236
Total assets	103,086	54,150	157,236
Liabilities			
Other payables	-	54,150	54,150
Net Assets			
Reserved for scholarships	53,121	-	53,121
Unreserved, undesignated	49,965	-	49,965
Total net assets	103,086	-	103,086

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2003

	Private Purpose Trusts \$
Additions:	
Local sources:	
Interest on investments	915
Contributions	<u>39,068</u>
Total additions	<u>39,983</u>
Deductions:	
Support services:	
Supplies	33,712
Scholarships	<u>5,768</u>
Total deductions	<u>39,480</u>
Change in net assets	503
Net assets beginning of year	<u>102,583</u>
Net assets end of year	<u><u>103,086</u></u>

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Waverly-Shell Rock Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Waverly and Shell Rock, Iowa, and agricultural territory in Black Hawk, Bremer and Butler Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Waverly-Shell Rock Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Waverly-Shell Rock Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Bremer County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the Enterprise, School Nutrition Fund and Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's medical insurance plan.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2004.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public fund.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 61,680	-	-	61,680
Capital assets being depreciated:				
Buildings	9,244,973	350,398	-	9,595,371
Improvements other than buildings	289,250	4,004	-	293,254
Furniture and Equipment	3,086,363	203,258	50,300	3,239,321
Construction in progress	325,675	-	325,675	-
Total capital assets being depreciated	12,946,261	557,660	375,975	13,127,946
Less accumulated depreciation for:				
Buildings	4,818,323	178,103	-	4,996,426
Improvements other than buildings	231,915	19,617	-	251,532
Furniture and Equipment	2,735,086	313,708	50,300	2,998,494
Total accumulated depreciation	7,785,324	511,428	50,300	8,246,452
Total capital assets being depreciated, net	5,160,937	46,232	325,675	4,881,494
Governmental activities, capital assets, net	5,222,617	46,232	325,675	4,943,174
Business type activities:				
Furniture and Equipment	307,167	-	-	307,167
Less accumulated depreciation	262,291	10,687	-	272,978
	\$ 44,876	(10,687)	-	34,189
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 511,428
Business type activities:				
Food service operations				\$ 10,687

(4) Bonds Payable

The District refinanced its outstanding bonded indebtedness on June 30, 2004. All previous indebtedness was paid off. Interest savings are estimated to be \$223,913. Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates %	Principal \$	Interest \$	Total \$
2005	1.35	365,000	37,028	402,028
2006	1.60	370,000	32,100	402,100
2007	2.00	380,000	26,180	406,180
2008	2.20	390,000	18,580	408,580
2009	2.50	400,000	10,000	410,000
Total		1,905,000	123,888	2,028,888

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	General Obligation Bonds	Capital Loan Notes	Early Retirement Payable	Total
Balance beginning of year	\$2,270,000	185,000	141,270	2,596,270
Additions	-	-	250,890	250,890
Reductions	<u>365,000</u>	<u>90,000</u>	<u>131,653</u>	<u>586,653</u>
Balance end of year	<u>\$1,905,000</u>	<u>95,000</u>	<u>260,507</u>	<u>2,260,507</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$450,019, \$450,573, and \$448,601 respectively, equal to the required contributions for each year.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$541,453 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to the employee's salary calculated by using the current year regular salary schedule, less the current year base pay. Early retirement benefits paid during the year ended June 30, 2004 totaled \$131,653.

(9) Capital Loan Notes

Details of the District's Capital Loan Notes are as follows:

Year Ending June 30,	Interest Rates %	Issued May 1, 1995		
		Principal \$	Interest \$	Total \$
2005	5.70	<u>95,000</u>	<u>5,415</u>	<u>100,415</u>

These notes, along with accompanying interest, will be paid from property taxes received in the Special Revenue, Physical Plant and Equipment Fund.

(10) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, administered by Wells Fargo Bank, Iowa, N.A, and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Wells Fargo maintains ISCAP accounts for each participating entity and provides monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

<u>Series</u>	<u>Date(s) Funds are Available</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04A	6/20/03	6/18/04	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The advance activity for the year ended June 30, 2004 was as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2003-04A	<u>-</u>	<u>300,000</u>	<u>300,000</u>	<u>-</u>

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.00%	1.050%

(11) Risk Management

Waverly-Shell Rock Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$940,956.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Waverly-Shell Rock Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Required Supplementary Information

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues						
Local sources	7,040,221	525,829	7,566,050	7,891,750	7,891,750	(325,700)
State sources	7,174,426	9,251	7,183,677	7,156,471	7,156,471	27,206
Federal sources	464,678	211,578	676,256	350,000	350,000	326,256
Total revenues	14,679,325	746,658	15,425,983	15,398,221	15,398,221	27,762
Expenditures						
Instruction	9,190,226	-	9,190,226	10,123,500	10,341,237	1,151,011
Support services	3,931,816	-	3,931,816	4,024,000	4,024,000	92,184
Non-instructional programs	-	755,175	755,175	1,118,000	1,118,000	362,825
Other expenditures	1,400,250	-	1,400,250	1,407,869	1,407,869	7,619
Total expenditures	14,522,292	755,175	15,277,467	16,673,369	16,891,106	1,613,639
Excess (deficiency) of revenues over (under) expenditures	157,033	(8,517)	148,516	(1,275,148)	(1,492,885)	1,641,401
Other financing sources (uses)	18,679	-	18,679	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	175,712	(8,517)	167,195	(1,275,148)	(1,492,885)	1,641,401
Balance beginning of year	3,189,676	126,474	3,316,150	1,902,630	1,902,630	3,347,565
Balance end of year	3,365,388	117,957	3,483,345	627,482	409,745	4,988,966

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$217,737.

During the year ended June 30, 2004, expenditures did not exceed the amounts budgeted in any of the four functions.

Other Supplementary Information

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Non-major Special Revenue Funds

June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	186,648	232,444	357,100	776,192
Property tax receivable:				
Current year	1,478	-	2,443	3,921
Succeeding year	244,864	-	138,039	382,903
Total assets	<u>432,990</u>	<u>232,444</u>	<u>497,582</u>	<u>1,163,016</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	3,665	-	-	3,665
Deferred revenue:				
Succeeding year property tax	244,864	-	138,039	382,903
	<u>248,529</u>	<u>-</u>	<u>138,039</u>	<u>386,568</u>
Fund equity:				
Unreserved, undesignated fund balance	184,461	232,444	359,543	776,448
Total liabilities and fund equity	<u>432,990</u>	<u>232,444</u>	<u>497,582</u>	<u>1,163,016</u>

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Non-major Special Revenue Funds

Year ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	260,579	-	436,302	696,881
Other	402	812,222	474	813,098
State sources	251	-	405	656
Federal sources	-	-	75,902	75,902
Total revenues	<u>261,232</u>	<u>812,222</u>	<u>513,083</u>	<u>1,586,537</u>
Expenditures:				
Instruction:				
Other instruction	-	783,900	-	783,900
Support services:				
General administration	218,819	-	-	218,819
Plant operation and maintenance	37,829	-	10,582	48,411
Student transportation	15,681	-	80,529	96,210
Other expenditures:				
Facilities acquisition and construction	-	-	356,576	356,576
Total expenditures	<u>272,329</u>	<u>783,900</u>	<u>447,687</u>	<u>1,503,916</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,097)</u>	<u>28,322</u>	<u>65,396</u>	<u>82,621</u>
Other financing sources (uses):				
Operating transfers out	-	-	(100,500)	(100,500)
Total operating financing sources (uses)	<u>-</u>	<u>-</u>	<u>(100,500)</u>	<u>(100,500)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(11,097)	28,322	(35,104)	(17,879)
Fund balances beginning of year	<u>195,558</u>	<u>204,122</u>	<u>394,647</u>	<u>794,327</u>
Balance end of year	<u><u>184,461</u></u>	<u><u>232,444</u></u>	<u><u>359,543</u></u>	<u><u>776,448</u></u>

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Vocal Music	8,001	11,333	13,232	6,102
JH Variety Vocal	3,193	5,849	6,307	2,735
Instrumental Music	1,071	10,056	10,812	315
Shell Rock Band	-	3,160	1,774	1,386
Miscellaneous Sports	3,564	18,193	21,600	157
JH Track	50	522	469	103
Cross Country	42	3,090	3,017	115
Boys Basketball	1,061	12,516	10,494	3,083
JH Boys Basketball	200	1,000	1,140	60
Football	89	18,645	13,475	5,259
JH Football	14	1,151	1,123	42
Boys Soccer	815	15,528	14,462	1,881
Baseball	(887)	17,350	17,295	(832)
Boys Track	(1,041)	4,322	3,229	52
Boys Tennis	209	319	503	25
Boys Golf	(169)	1,186	1,195	(178)
Wrestling	2,527	15,764	15,313	2,978
Weightlifting	1,961	620	1,592	989
JH Wrestling	20	550	545	25
Girls Basketball	2	6,877	6,335	544
JH Girls Basketball	-	1,530	1,430	100
Girls Volleyball	71	12,558	12,439	190
JH Girls Volleyball	-	1,543	1,443	100
Girls Soccer	(1,403)	14,809	10,895	2,511
Girls Softball	610	5,617	6,761	(534)
Girls Track	181	7,527	7,936	(228)
Girls Tennis	122	58	185	(5)
Girls Golf	(92)	832	1,393	(653)
Dance Team	102	2,178	1,677	603
Masquers	1,540	2,955	2,993	1,502
Art Club	(562)	4,493	3,598	333
Boys W Club	535	481	149	867
Science Club	4,375	3,329	2,076	5,628
National Honor Society	165	3,197	3,009	353
Coupon Card	2,627	-	57	2,570
Publications	2,192	10	268	1,934
Student Senate	1,511	2,881	3,063	1,329
Student Lounge	5,343	10,750	10,498	5,595
SADD	580	-	-	580
Class of 2005	100	2,500	2,383	217
Class of 2006	100	40	-	140
Class of 2003	473	-	373	100
Class of 2004	401	3,268	768	2,901

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Varsity Club	2,598	3,161	1,311	4,448
Annual	19,305	28,869	25,572	22,602
Guidance Transcripts	3,244	36	1,346	1,934
French Club	733	2,262	2,765	230
Spanish Club Student Accounts	8,350	8,889	10,442	6,797
Spanish Club Operating Accounts	5	1,075	709	371
FFA	1,206	25,846	23,424	3,628
German Club	604	1,510	1,008	1,106
DECA	2,959	35,934	36,476	2,417
String Music	1,539	3,515	4,506	548
Cheerleaders	753	8,060	13,773	(4,960)
Band Uniform Cleaning	491	2,327	1,637	1,181
HS Basketball Cheerleaders	95	1,820	1,720	195
HS Wrestling Cheerleaders	697	1,400	1,424	673
JH Cheerleaders	984	202	116	1,070
JH Student Council	3,874	2,318	3,154	3,038
JH Activity	2,810	19,897	13,590	9,117
JH Annual	986	1,078	711	1,353
JH Cookie Sales	900	3,607	3,285	1,222
Blake/Mackey Rental & Repair	2,948	404	277	3,075
Irving Account	2,399	5,218	4,946	2,671
Buxton TAG	1,015	817	393	1,439
Band/Choir Trip	146	-	146	-
Shell Rock Activity Fund	808	6,465	5,569	1,704
Carey Account	777	567	620	724
Carey Second Grade - Mrs. Howell	50	-	-	50
West Cedar Account	294	1,170	898	566
MOC	252	449	420	281
Elementary Chorus - Hansen	460	991	1,331	120
Other Activities	53,057	9,856	21,099	41,814
Pictures	435	1,548	515	1,468
Christmas Card	728	900	400	1,228
Change Fund	(1,475)	6,196	7,368	(2,647)
Books	163	67,174	66,763	574
Activity Tickets	1,254	-	1,254	-
School Lunch	262	47,973	47,502	733
Transportation pop	-	550	614	(64)
W-SR Wilderness	2,829	2,827	3,654	2,002
Instrumental Repair	506	1,120	2,488	(862)
PE Stores	5,313	79	3,580	1,812
String Music Stores	(176)	-	395	(571)
Band Stores - High School	(428)	1,847	1,443	(24)
Calculators - HS Math Dept	87	3,669	3,126	630
SH Band Fundraiser	4,430	11,472	10,356	5,546

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Home Ec Stores	1,225	588	831	982
Ind Tech Stores - HS	536	10,345	10,228	653
HS Pop	3,630	3,112	2,887	3,855
High School Library	1,299	892	580	1,611
JH Courtesy	540	205	300	445
JH Band Stores	(91)	1,408	1,382	(65)
JH Tech Stores	551	1,021	1,020	552
JH Library	100	865	700	265
Shop Group Shell Rock	595	112	263	444
JH Chess Club	-	112	-	112
JH Video Club	-	404	342	62
Shell Rock Pop	516	502	520	498
Entrepreneurship Class	65	9,102	8,784	383
Recycling - Carlson	258	271	242	287
Bus Buddies	456	500	-	956
JH Home Economics	13	2,001	1,928	86
Southeast Library	42	62	23	81
Carey Library	135	39	56	118
Irving Library	86	88	61	113
Shell Rock Library	196	44	55	185
JH Art	908	366	-	1,274
West Cedar Library	119	83	80	122
Southeast School	4,076	5,152	4,020	5,208
Business Office - Miscellaneous	878	72,293	69,833	3,338
TAG Award	1,486	263	703	1,046
JH Plus Program	-	100	-	100
Irving Transportation Donation	550	182	-	732
Irving Playground Account	500	-	248	252
Mr. Vyerberg's Account	1,841	867	2,148	560
HS Character Counts	240	661	679	222
HS Vocal Music Fund Raising	-	14,288	10,248	4,040
Electric Car Fund	367	-	348	19
HS Vocal Music Account	5,795	1,272	278	6,789
HS Vocal Music Trips	3,325	88,817	95,635	(3,493)
HS Musical	2,409	5,190	4,893	2,706
Colorado - HS Band Trip	62	19,542	97	19,507
HS Vocal Music Uniform Account	2,139	2,389	2,292	2,236
D Wiltse Transportation Donation	108	490	200	398
High School Jazz	(249)	4,461	2,489	1,723
String Rental	80	1,646	1,366	360
Transportation - West Cedar	-	1,276	1,290	(14)
Elem Art Contest	88	-	-	88
Elem Art	-	425	37	388
Mrs. Ribich Class Project	332	-	293	39

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Elem & JH String Rentals	97	408	507	(2)
Elem & JH String Stores	(318)	-	186	(504)
PLUS Program Math Competition	644	604	605	643
SH Transportation Monies	474	-	-	474
HS Donation (Bock)	-	1,352	-	1,352
Soesbe McElroy Grant	(126)	126	-	-
Flex Team (Green)	-	-	17	(17)
HS Advance Placement	185	1,582	1,491	276
JH Juice	-	4,529	4,033	496
Research (Slessor)	-	500	250	250
Total	204,122	812,222	783,900	232,444

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Statement of Fiduciary Net Assets

Private Purpose Trusts

Year ended June 30, 2004

	Carey Parents	Southeast Parents	W. Cedar Parents	Dierks Scholarship	Rotary Athletic	Kenneth Stumme Scholarship	HS Math/ Science	Elementary PE	DECA Student Account
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets									
Cash and pooled investments	7,971	(10)	3,672	48,178	(725)	7,763	138	191	198
	<u>7,971</u>	<u>(10)</u>	<u>3,672</u>	<u>48,178</u>	<u>(725)</u>	<u>7,763</u>	<u>138</u>	<u>191</u>	<u>198</u>
Net Assets									
Reserved for scholarships	-	-	-	45,358	-	7,763	-	-	-
Unreserved	7,971	(10)	3,672	2,820	(725)	-	138	191	198
	<u>7,971</u>	<u>(10)</u>	<u>3,672</u>	<u>48,178</u>	<u>(725)</u>	<u>7,763</u>	<u>138</u>	<u>191</u>	<u>198</u>

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Statement of Fiduciary Net Assets

Private Purpose Trusts

Year ended June 30, 2004

	W. Cedar Donation	HS Special Education	Irving T. Hirst	Jr High S Beall	West Cedar Rozen	Jr High Jamison	Shell Rock Goodrich	Shell Rock Greenlee	W Cedar Obermeier
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets									
Cash and pooled investments	-	3,788	2	140	356	115	1	156	31
	<u>-</u>	<u>3,788</u>	<u>2</u>	<u>140</u>	<u>356</u>	<u>115</u>	<u>1</u>	<u>156</u>	<u>31</u>
Net Assets									
Reserved for scholarships	-	-	-	-	-	-	-	-	-
Unreserved	-	3,788	2	140	356	115	1	156	31
	<u>-</u>	<u>3,788</u>	<u>2</u>	<u>140</u>	<u>356</u>	<u>115</u>	<u>1</u>	<u>156</u>	<u>31</u>

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Statement of Fiduciary Net Assets

Private Purpose Trusts

Year ended June 30, 2004

	Jr High Harrell	HS Crayne	Community Builders	HS Art Scholarship	Pepsi Donation	Soesbe McElroy Funds	Globe Project	J Greenlee	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets									
Cash and pooled investments	227	1,627	162	1,046	26,000	1,046	128	885	103,086
	<u>227</u>	<u>1,627</u>	<u>162</u>	<u>1,046</u>	<u>26,000</u>	<u>1,046</u>	<u>128</u>	<u>885</u>	<u>103,086</u>
Net Assets									
Reserved for scholarships	-	-	-	-	-	-	-	-	53,121
Unreserved	227	1,627	162	1,046	26,000	1,046	128	885	49,965
	<u>227</u>	<u>1,627</u>	<u>162</u>	<u>1,046</u>	<u>26,000</u>	<u>1,046</u>	<u>128</u>	<u>885</u>	<u>103,086</u>

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trusts

Year ended June 30, 2004

	High School Special Ed	Carey Parents	W. Cedar Parents	W. Cedar Donation	DECA Students	Kenneth Stumme Scholarship	HS Math/ Science	Irving Hirst
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:								
Local sources:								
Interest on investments	-	-	-	-	-	-	-	-
Contributions	2,000	12,038	14,329	-	47	-	-	115
	<u>2,000</u>	<u>12,038</u>	<u>14,329</u>	<u>-</u>	<u>47</u>	<u>-</u>	<u>-</u>	<u>115</u>
Expenditures:								
Instruction:								
Regular instruction:								
Supplies	321	11,160	15,255	62	-	-	-	110
Other	-	-	-	-	-	600	-	-
	<u>321</u>	<u>11,160</u>	<u>15,255</u>	<u>62</u>	<u>-</u>	<u>600</u>	<u>-</u>	<u>110</u>
Excess (deficiency) of revenues over (under) expenditures	1,679	878	(926)	(62)	47	(600)	-	5
Balance beginning of year	<u>2,109</u>	<u>7,093</u>	<u>4,598</u>	<u>62</u>	<u>151</u>	<u>8,363</u>	<u>138</u>	<u>(3)</u>
Balance end of year	<u><u>3,788</u></u>	<u><u>7,971</u></u>	<u><u>3,672</u></u>	<u><u>-</u></u>	<u><u>198</u></u>	<u><u>7,763</u></u>	<u><u>138</u></u>	<u><u>2</u></u>

Waverly-Shell Rock Community School District

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trusts

Year ended June 30, 2004

	Diercks Scholarship	Rotary Athletic	Elementary PE	Jr High S Beall	Southeast Parents	Community Builders	West Cedar J Rozen	HS Art Scholarship
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:								
Local sources:								
Interest on investments	820	95	-	-	-	-	-	-
Contributions	2,000	-	37	114	27	3,656	115	1,500
	<u>2,820</u>	<u>95</u>	<u>37</u>	<u>114</u>	<u>27</u>	<u>3,656</u>	<u>115</u>	<u>1,500</u>
Expenditures:								
Instruction:								
Regular instruction:								
Supplies	-	-	78	-	58	2,946	-	-
Other	-	4,543	-	-	-	-	-	625
	<u>-</u>	<u>4,543</u>	<u>78</u>	<u>-</u>	<u>58</u>	<u>2,946</u>	<u>-</u>	<u>625</u>
Excess (deficiency) of revenues over (under) expenditures	2,820	(4,448)	(41)	114	(31)	710	115	875
Balance beginning of year	<u>45,358</u>	<u>3,723</u>	<u>232</u>	<u>26</u>	<u>21</u>	<u>(548)</u>	<u>241</u>	<u>171</u>
Balance end of year	<u><u>48,178</u></u>	<u><u>(725)</u></u>	<u><u>191</u></u>	<u><u>140</u></u>	<u><u>(10)</u></u>	<u><u>162</u></u>	<u><u>356</u></u>	<u><u>1,046</u></u>

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trusts

Year ended June 30, 2004

	Carey Gomes	Shell Rock Goodrich	Shell Rock Greenlee	W Cedar Obermeier	Jr High Jamison	J Greenlee	J Orvis	McElroy Funds Soesbe
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:								
Local sources:								
Interest on investments	-	-	-	-	-	-	-	-
Contributions	-	-	201	115	153	231	-	1,802
	-	-	201	115	153	231	-	1,802
Expenditures:								
Instruction:								
Regular instruction:								
Supplies	-	-	86	111	38	346	1,000	1,847
Other	-	-	-	-	-	-	-	-
	-	-	86	111	38	346	1,000	1,847
Excess (deficiency) of revenues over (under) expenditures	-	-	115	4	115	(115)	(1,000)	(45)
Balance beginning of year	-	1	41	27	-	1,000	1,000	1,091
Balance end of year	-	1	156	31	115	885	-	1,046

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trusts

Year ended June 30, 2004

	Globe Project	Jr High Harrell	Trainor Personal	HS Crayne	Athletic Pepsi Donation	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Interest on investments	-	-	-	-	-	915
Contributions	178	-	-	410	-	39,068
	178	-	-	410	-	39,983
Expenditures:						
Instruction:						
Regular instruction:						
Supplies	50	20	-	224	-	33,712
Other	-	-	-	-	-	5,768
	50	20	-	224	-	39,480
Excess (deficiency) of revenues over (under) expenditures	128	(20)	-	186	-	503
Balance beginning of year	-	247	-	1,441	26,000	102,583
Balance end of year	128	227	-	1,627	26,000	103,086

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund

Year ended June 30, 2004

<u>Account</u>	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
HS Benevolent	248	185	200	233
Irving Social Fund	-	400	335	65
Basketball Booster Club	286	-	-	286
Maintenance Courtesy	65	-	-	65
Transportation Courtesy	213	-	119	94
Irving Parent Account	-	3,238	2,618	620
Secretary Courtesy	72	-	40	32
Concessions - Athletic Boosters	13,202	73,877	52,604	34,475
Membership - Athletic Boosters	7,201	15,784	17,287	5,698
Athletic Boosters - Facility/Equipment	6,000	568	-	6,568
Athletic Boosters - Addl Events	2,565	5,480	6,933	1,112
Athletic Booster Resale	3,161	1,649	2,896	1,914
Afghan Reading Project	139	109	239	9
W-SR Girls Basketball Camp	1,035	3,914	1,970	2,979
	<u>34,187</u>	<u>105,204</u>	<u>85,241</u>	<u>54,150</u>

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
Local tax:				
Property tax	5,117,785	5,112,136	4,799,209	4,785,785
Mobile home tax	4,914	15,650	5,188	5,269
Local option sales tax	852	828	2,322	6,207
	<u>5,123,551</u>	<u>5,128,614</u>	<u>4,806,719</u>	<u>4,797,261</u>
State sources:				
State foundation aid	6,048,223	6,059,274	5,985,343	6,168,657
School improvement and technology	-	-	39,746	119,516
AEA flow through	541,453	575,243	576,112	600,035
Shelter care/juvenile home aid	127,096	118,276	183,354	50,751
Educational excellence program:				
Phase I	10,307	10,573	10,573	10,607
Phase II	153,244	155,754	158,881	162,921
Phase III	-	41,438	93,608	90,773
Non-public transportation aid	21,640	14,781	9,984	37,676
Non-public textbook aid	2,042	1,968	2,185	1,492
Non-public technology aid	-	-	4,945	4,541
Revenue in lieu of taxes - military credit	4,916	5,025	4,109	5,163
Lunch and breakfast program claims	9,251	9,127	9,570	10,241
Vocational aid	16,084	18,646	20,610	18,518
At risk programs	16,400	34,357	44,538	51,891
Iowa Early Intervention Block Grant	88,929	95,479	93,409	60,062
Teacher quality and improvement program	133,941	117,815	115,371	-
Evaluator training	-	4,000	-	-
Teacher mentoring program	6,500	6,500	2,600	-
Other state aid	3,651	-	-	-
	<u>7,183,677</u>	<u>7,268,256</u>	<u>7,354,938</u>	<u>7,392,844</u>
Federal sources:				
Star Schools	-	-	-	13,710
Class Size Reduction	-	-	34,165	26,826
ComServ Iowa	500	5,000	4,500	5,000
Eisenhower Math & Science	-	-	9,163	7,363
Improving Teacher Quality	52,140	57,393	-	-
Goals 2000	-	-	27,072	57,590
Safe and Drug Free Schools	7,476	3,566	7,294	3,728
Title I Grants to Local Educational Agencies	209,497	143,545	155,924	160,514
Vocational Education - Basic Grant	15,261	36,261	-	13,713
Special Education - Grants to States	71,369	1,975	-	-
Innovative Education Program Strategies	10,522	10,461	10,641	10,406
Grants for Assessments and Related Activities	22,011	-	-	-
Iowa Construction Demonstration Grant	75,902	-	-	-
National School Lunch, Breakfast and Special Milk Programs	163,950	145,108	151,352	150,197
Food Distribution	47,628	54,750	53,282	47,628
	<u>676,256</u>	<u>458,059</u>	<u>453,393</u>	<u>496,675</u>
	<u>12,983,484</u>	<u>12,854,929</u>	<u>12,615,050</u>	<u>12,686,780</u>

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution (non-cash)	10.550	FY04	<u>47,628</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY04	11,804
National School Lunch Program	10.555	FY04	<u>152,146</u>
			<u>163,950</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6840-G-04	129,402
Title I Grants to Local Educational Agencies	84.010	6840-GC-04	<u>16,008</u>
			<u>145,410</u>
Title I Neglected and Delinquent Children	84.012	6840-D-04	22,477
Innovative Educational Program Strategies (Title V)	84.298	FY04	10,522
Grants for Assessments and Related Activities	84.369	FY04	10,005
Improving Teacher Quality - Grants to States	84.348	FY04	52,140
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY04	7,476
Iowa Construction Demonstration Grants	84.215	FY04	75,902
Vocational Education - Basic Grants to States	84.048	FY04	15,261
Area Education Agency 267:			
Special Education - Grants to States (IDEA Part B)	84.027	FY04	71,369
U.S. Corporation for National and Community Service			
Iowa Department of Education:			
Learn and Service America (ComServ Iowa)	94.004	FY04	<u>500</u>
Total			<u><u>622,640</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Waverly-Shell Rock Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Waverly-Shell Rock Community School District:

We have audited the financial statements of the Waverly-Shell Rock Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 5, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Waverly-Shell Rock Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waverly-Shell Rock Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Waverly-Shell Rock Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-II-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-II-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Waverly-Shell Rock Community School District and other parties to whom Waverly-Shell Rock Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Waverly-Shell Rock Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

October 5, 2004

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

To the Board of Education of the
Waverly-Shell Rock Community School District:

Compliance

We have audited the compliance of Waverly-Shell Rock Community School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Waverly-Shell Rock Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Waverly-Shell Rock Community School District's management. Our responsibility is to express an opinion on Waverly-Shell Rock Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Waverly-Shell Rock Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Waverly-Shell Rock Community School District's compliance with those requirements.

In our opinion Waverly-Shell Rock Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Waverly-Shell Rock Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Waverly-Shell Rock Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Waverly-Shell Rock Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item 04-III-A of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Waverly-Shell Rock Community School District and other parties to whom Waverly-Shell Rock Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

BRUCE D. FRINK
Certified Public Accountant

October 5, 2004

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance that is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Education AgenciesSchool Nutrition Clustered Programs:
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Waverly-Shell Rock Community School District did not qualify as a low-risk auditee.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-II-A SEGREGATION OF DUTIES

Comment - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number: 84.010 Title I Grants to Local Education Agencies

Agency Numbers: 6840-G-04, 6840-GC-04

Federal Award Year: 2004

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 10.553 School Breakfast Program

10.555 National School Lunch Program

Federal Award Year: 2004

US Department of Agriculture

Passed through Iowa Department of Education

04-III-A Segregation of Duties over Federal Funds - One important aspect of internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

04-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget - Expenditures for the year ended June 30, 2004, did not exceed the amounts budgeted in any of the four functions.

04-IV-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:
(continued) :

- 04-IV-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 04-IV-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 04-IV-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 04-IV-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 04-IV-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 04-IV-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

